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ECONOMIC PROBLEMS AHEAD

Statement of HON. RON PAUL OF TEXAS

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- Mr. Speaker, the financial markets are now nervously watching the impasse now reached in the Presidential election. Many commentators have already claimed the most recent drop in the market is a consequence of the uncertainty about the outcome of the election. Although it would be a mistake to totally dismiss the influence of the election uncertainty as a factor in the economy, it must be made clear that the markets and the economy are driven by something much more basic. We know that the markets have been off significantly for the past several months, and this drop was not related in any way to the Presidential election.

- Confidence is an important factor in the way markets work, and certainly the confusion in the Presidential election does not convey confidence to investors and to the rest of the world.

- Mises, the great 20th century economist, predicted decades before the fall of the Soviet system that socialism was unworkable and would collapse upon itself. Although he did not live to see it, he would not have been surprised to witness the events of 1989 with the collapse of the entire Communist-Soviet system. Likewise, the interventionist-welfare system endorsed by the West, including the United States, is unworkable. Even without the current problems in the Presidential election, signs of an impasse within our system were evident. Inevitably, a system that decides almost everything through pure democracy will sharply alienate two groups: the producers, and the recipients of the goods distributed by the popularly elected congresses. Our system is not only unfairly designed to take care of those who do not work, it also rewards the powerful and influential who can gain control of the government apparatus. Control over government contracts, the military industrial complex and the use of our military to protect financial interests overseas is worth great sums of money to the special interests in power.

- Even though it is argued that there are huge budget surpluses in Washington, instead of budget compromise, a stalemate results. Each side wants even a greater share of the loot being distributed by the politicians. Even with the windfall revenues, no serious suggestion is made in Washington for cuts in spending. Instead of moving toward a market economy and less dependency on the federal government in the midst of this so-called 'prosperity,' we continue to go World Trade Organization, the International Monetary Fund, and the World Bank. Although in the early stages of interventionism and government planning, especially when a great deal of wealth is available for redistribution, it seems to enhance prosperity while prolonging the financial bubble on which the economy is dependent. The monetary system, both our domestic system as well as the international fiat system, plays a key role in the artificial prosperity based on inflated currencies as well as debt and speculation.

- The pretended goal of the economic planners has been economic fairness through redistribution of wealth, politically correct social consciousness, and an all-intrusive government which becomes a responsibility for personal safety, health and education while personal responsibility is diminished. The goal of liberty has long been forgotten. The concentrated effort has been to gain power through the control of wealth with a scheme that pretends to treat everybody fairly. An impasse was destined to come, and already signs are present in our system of welfarism. This election in many ways politically demonstrates this economic reality. The political stalemate reflects the stalemate that is developing in the economy. Both will eventually cause deep division and hardship. The real problem-preserving of the free market and private property rights- if ignored, will only make things worse, because the only solution that will be offered in Washington will be more government intervention, increased spending,

increase in monetary inflation, more debt, greater military activity throughout the world, and priming the economic pump with more expenditures for weapons we do not need.

- We have already seen signs of economic troubles ahead . Although the Fed plans for only a slight slow down and a so-called 'soft landing,' the correction from the monetary mischief of the last 10 years has already been determined. Although the dollar currently remains strong, because other currencies are so weak, there is a limitation on how long we can create new dollars without them being devalued. A weaker dollar will surely come in our not too distant future. Our huge current account deficit and trade imbalances warn us of that day.

- Government statistics continue to tell us that price inflation is not a problem, and when an inflation statistic comes out it does not like, it drops out food and energy and claims the number is totally benign. Ask any housewife, and they will tell you that the cost of living is going up steadily and much more rapidly than the government will admit. We in the Congress should be prepared for lower revenues in the future since the revenues received in the last couple of years were artificially created by a stock market that had skyrocketed due to the credit expansion by the Federal Reserve. These capital gains tax revenues will soon disappear. The savings rates of the American people are now negative. Without savings, true capital investment cannot be maintained. Creation of credit out of thin air by the Fed was the original problem, so it surely can't be the solution.

- Even in the midst of our great imaginary budgetary surpluses, there has been no effort to cut. Once the economy tends to slow and more problems are apparent, expenditures are going to soar not only because of future problems but because of the new programs recently initiated. A huge financial bubble has been created by the GSEs, such as Fannie Mae and Freddie Mac. The \$33 billion of shareholder equities in these two organizations has been leveraged into \$1.07 trillion worth of assets- a bubble waiting to be pricked. The Congress has reacted to all these events irresponsibly by increasing spending, increasing tax revenues, doing nothing to reduce regulations, and being totally apathetic toward the dollar and monetary policy. We in the Congress have a moral and constitutional obligation to protect the value of the dollar and to understand why it is so important to the economy that a central bank not be given the

unbelievable power of inflating a currency at will and pretending that it knows how to find tune an economy through this counterfeit system of money.

- Rising interest rates in the high yield bond market is giving us an indication that a serious problem is just around the bend. Commercial debt was but \$50 billion in 1994 and is now ten times higher now at \$551 billion. The money supply is now growing at greater than a 10% rate and the derivatives market, although difficult to calculate, probably exceeds \$75 trillion. We also have consumer debt, which is at record highs and has not yet shown signs of slowing. The Dow Jones Industrial Average stocks are now 5 times book value, the highest in over a hundred years. There will come a day when most people come to realize the fraud associated with Social Security and the inability for it to continue as currently managed. Rising oil and natural gas prices, it is argued, are not inflationary, yet they are playing havoc with the pocketbooks of most Americans. The economies of Asia, and in particular Japan, will not offer any assistance in dealing with the approaching storm in this country. Our foreign policy, which continues to obligate our support around the world, shows no signs of changing and will contribute to the crisis and possibly our bankruptcy.

- What must we do? We should develop more sensible priorities. We must restore confidence in freedom and recognize how free markets can solve our problems . We must have more respect for the Rule of Law and demand that Congress, the Courts, and the President live within the Rule of Law and stop arbitrarily flaunting the Constitution. If the Constitution is to be changed, it should be changed slowly and deliberately as is permitted, but never by fiat. We must eventually reconsider the notion of the original constitutional Republic as designed by our Founders. The monolithic centralized state was not the design nor is it supported by the Constitution. We were meant to have loose knit individual states, with the states themselves managing their own affairs.

- The political impasse we now see with the election process, along with the divisions in the House and Senate, is surely related to the economic and budgetary impasse that plagues Washington. Since interventionism (the planned welfare state) is unworkable and will fail, the surprising developments in this presidential election will accelerate its demise. The two are

obviously related.